

Excelsior District #1
FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2006

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Management's Discussion and Analysis For the year ended June 30, 2006

Our discussion and analysis of Excelsior School District #1, Crawford Schools' (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2006. Please read this analysis in conjunction with the District's financial statements, which immediately follow this section.

DESCRIPTION OF REPORTING ENTITY AND SERVICES PROVIDED

Excelsior School District #1 is one of the few remaining one-room school houses in Michigan. The District is located in the heart of Kalkaska County. Crawford School serves students in grades Kindergarten through 8th grade. The blended pupil count for the 2005-2006 school year was 50.25 pupils. More than half of the students attended the District under the Schools of Choice Program. Students attending the District are afforded more individualized attention due to small class sizes. Educators in the District are committed to the philosophy that all children are capable of learning if they have the appropriately specified learning tasks and a suitable amount of time commensurate with their individual learning rates. Excelsior School District #1 offers a core academic curriculum that meets and or exceeds state guidelines at all levels.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three sections presented in the following order: Management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide Comprehensive *short-term* and *long-term* financial information about the District As a whole.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about assets held by the District in a *trustee* or *agent* capacity.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data and supporting documentation. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged.

Figure A-1

District Financial Report Organization

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Funds

Other Supplemental Information

DISTRICT-WIDE STATEMENTS

The district-wide statements provide comprehensive information about the entire District using the accrual basis of accounting which is similar to the method used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities and the difference between the two, which is net assets. The statement of activities accounts for all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction and supporting services. Unrestricted State Aid and property taxes finance most of these activities.

The two district-wide statements report the District's *net assets* and how they have changed. Examining net assets is one way to measure the District's financial health or *position*. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or declining. The relationship between revenues and expenses is the District's operating results, or in other terms, whether the District had a profit or a loss at year end. However, the District's mission is not simply to generate profits, as may be the case for a commercial entity.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds. Each major fund is presented in a separate column. Non-major funds are aggregated and displayed in a single column. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The District has two kinds of funds:

Governmental funds:

All of the District's basic services are included in governmental funds. Governmental fund reporting generally focuses on how dollars flow in and out of the funds and the balances left at year-end. These balances are reported using the modified accrual basis of accounting. Revenues are recognized when they are measurable and available. Expenditures are recorded when the related fund liability is incurred. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are presented in a reconciliation displayed further in our documentation. The District's major governmental fund is the general fund. The District has no other major or non-major governmental funds.

Fiduciary Funds:

The District is the Trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and only by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations. The Student Activities Account is accounted for as fiduciary funds.

The District as a Whole

Recall that the statement of net assets provides the perspective of the District as a whole. Table 1 provides a summary of the District's net assets as of June 30, 2006:

TABLE 1

	Governmental Activities <u>2004-2005</u>	Governmental Activities <u>2005-2006</u>	% <u>Change</u>
Assets			
Current and other assets	\$213,169	\$252,309	18.4%
Capital assets	<u>19,933</u>	<u>91,912</u>	361.0%
Total assets	<u>233,102</u>	<u>344,221</u>	<u>47.7%</u>
Liabilities			
Current liabilities	39,507	29,597	(25.1%)
Net Assets			
Invested in property and equipment – Net of related debt	19,933	91,912	361.0%
Unrestricted	<u>173,662</u>	<u>222,712</u>	<u>28.2%</u>
Total net assets	<u>\$193,595</u>	<u>\$314,624</u>	<u>62.5%</u>

The above analysis focuses on the net assets (see Table 1). The District's net assets were \$314,624 at June 30, 2006 as compared to \$193,595 at June 30, 2005. The increase in net assets is primarily the result of increased revenue generated from enrollment plus continued conservative spending practices. Capital assets, net of related debt totaling \$91,912, compares the original cost, less depreciation of the District's capital assets to long-term debt used to finance the acquisition of those assets. The District has no debt related to the acquisition of capital assets. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations. The District has no restricted net assets. The remaining amount of net assets (\$222,712) was unrestricted.

The \$222,712 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills today, including all of our non-capital liabilities; we would have \$222,712 remaining. The operating results of the District will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2006 as compared to the previous year.

TABLE 2

	Governmental Activities <u>2004-2005</u>	Governmental Activities <u>2005-2006</u>	% Change
Revenue -			
Program revenue:			
Charges for services	\$ 30	\$ 27	(10.0%)
Operating grants and contributions	38,849	44,115	13.6%
General revenue:			
Property taxes	98,787	99,602	1.0%
State School Aid- unrestricted	223,163	245,865	10.2%
Other	<u>11,436</u>	<u>15,322</u>	<u>34.0%</u>
Total revenues	<u>372,265</u>	<u>404,931</u>	<u>8.8%</u>
Functions/Program Expenses:			
Instruction	204,020	202,419	(.8%)
Support services	53,926	74,114	37.4%
Community services			
Other transactions	6,700	-	(100.0%)
Capital outlay	1,959	48	97.5%
Depreciation (unallocated)	<u>1,100</u>	<u>7,321</u>	<u>565.5%</u>
Total expenses	<u>\$ 267,705</u>	<u>\$ 283,902</u>	<u>6.1%</u>
Increase in Net Assets	<u>\$ 104,560</u>	<u>\$ 121,029</u>	<u>15.8%</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$283,902. Certain activities were partially funded from those who benefited from the programs (\$27) or by other grants and contributions (\$44,115). We paid for the remaining "public benefit" portion of our governmental activities with \$99,602 in taxes, \$245,865 in State Aid, and with other revenues including interest and general entitlements.

The District experienced an increase in net assets of \$121,029. Key reasons for the change in net assets was the continuing conservative approach the District took on spending due to the continued poor economic condition of the State and an increase in revenues from additional students.

As discussed above, the net cost shows the financial burden that was placed on the State and the District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State Aid constitute the vast majority of District operating revenue sources, the School Board and Administration must annually evaluate the needs of the District and balance those needs with State prescribed available unrestricted resources.

The District's Funds

As noted earlier, the District uses fund accounting to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District's overall financial health. The District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. The General Fund is the main operating fund of the District. All other funds would be used to account for the proceeds from specific revenue sources that are legally restricted to certain types of expenditures.

As the District completed this year, the governmental funds reported a combined fund balance of \$222,712, which is an increase of \$49,050 from the prior year. The primary reasons for the increase are:

- Fiscal restraint shown in the area of expenditures.
- Additional state aid funding due to an increase in student population.

The District does not have any debt obligations; accordingly, no debt retirement fund balance exists at year end.

Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with numerous changes in expected revenues and expenditures. The Uniform Budget Act of the State of Michigan requires that the Board of Education adopt a budget for the upcoming school year prior to July 1, which is the start of the new fiscal year. The District revised its budget one time during the fiscal year. Under normal circumstances, the District adjusts its budget to reflect a wide variety of federal and state programs, many of which are not finalized until well after the District's original budget is required to be adopted. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations.

The district experienced an increase in students over the 2004-2005 school year. The growth allowed the District to receive additional foundation allowance revenue. The Board of Education chose to purchase a new bus. The previous bus was of 1995 vintage. Once again, the District was conservative in their spending practices. As a result of changes during the year, the general fund budget was adjusted. The General Fund experienced an increase of \$49,050 in fund balance. This was a favorable variance of \$20,716 over the original budget estimate.

A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006, the District had \$91,912 invested in a range of capital assets including buildings, land, furniture, equipment and a vehicle. This amount represents an increase of \$71,979 in net capital assets from June 30, 2005. The District purchased new classroom furniture and replace its aging bus. No debt was issued for these capital additions.

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Capital Assets	\$ 84,734	\$79,300	\$ -	\$164,034
Less: Accumulated Depreciation	<u>(\$64,801)</u>	<u>(\$7,321)</u>	<u>\$ -</u>	<u>(\$72,122)</u>
Total capital assets, net	<u>\$ 19,933</u>	<u>\$71,979</u>	<u>\$ -</u>	<u>\$ 91,912</u>

Debt

At June 30, 2006 the District had no debt owing.

Economic Factors and Next Year's Budgets and Rates

At the time these financial statements were prepared and audited, the District was aware of a number of circumstances that could significantly affect the financial health of Excelsior District #1.

- The current retirement rate is 16.34%. The retirement rate will increase to 17.74% in 2006-2007. Containment of costs within the retirement system continues to be a concern for all Michigan school districts.
- Pressures on health insurance premiums continue to be a problem. The District received double digit health insurance increases for the upcoming 2006-2007 school year. Alternative health care coverage is being considered.

- We continue to be very concerned about the State of Michigan's revenue picture. The State Aid bill for the 2006-2007 school year is nearly completed. An increase of \$210 in the base grant is predicted. Unfortunately once again, between increases in health insurance and retirement costs, very little will be available for classroom use.

Contacting the School District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Stephanie Murray, Director of Human Resources, Finance and Administrative Services at Traverse Bay Area Intermediate School District, 1101 Red Drive, P.O. Box 6020, Traverse City, MI 49696-6020, Fax (231) 922-6270, Telephone (231)922-6200.



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Our clients' success – our business

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Excelsior District #1

We have audited the accompanying financial statements of the governmental activities and each major fund of **Excelsior District #1** (the "School District") as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the School District's financial statements and, in our report dated August 4, 2005, we expressed an unqualified opinion on the respective financial statements of the governmental activities.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the respective financial position of the governmental activities and each major fund of the School District as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2006, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Member of



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The management's discussion and analysis on pages i - vii and the budgetary comparison information on page 19, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Dennis, Gartland & Niergarth

August 3, 2006

Excelsior District #1
STATEMENT OF NET ASSETS
June 30, 2006
(with comparative totals for June 30, 2005)

	Governmental Activities	
	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 187,893	\$ 142,282
Accounts receivable	425	1,057
Due from other governmental units	63,991	69,830
Total current assets	252,309	213,169
Non-current assets		
Capital assets, net of accumulated depreciation	91,912	19,933
Total assets	<u>\$ 344,221</u>	<u>\$ 233,102</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Current liabilities		
Accounts payable	\$ 1,961	\$ 11,477
Salaries payable and related expenses	27,636	28,030
Total current liabilities	29,597	39,507
NET ASSETS		
Invested in capital assets, net of related debt	91,912	19,933
Unrestricted	222,712	173,662
Total net assets	314,624	193,595
Total liabilities and net assets	<u>\$ 344,221</u>	<u>\$ 233,102</u>

Excelsior District #1

STATEMENT OF ACTIVITIES

Year ended June 30, 2006
(with comparative totals for the year ended June 30, 2005)

Functions/Programs	Expenses	Program Revenues		Net Expense and Changes in Net Assets	2005
		Charges For Services	Operating Grants and Contributions		
Governmental activities					
Instruction	\$ 202,419	\$ 27	\$ 44,040	\$ (158,352)	\$ (167,145)
Supporting Services	74,114	-	75	(74,039)	(51,922)
Other transactions	-	-	-	-	(6,700)
Capital Outlay	48	-	-	(48)	(1,959)
Depreciation-unallocated	7,321	-	-	(7,321)	(1,100)
Total governmental activities	\$ 283,902	\$ 27	\$ 44,115	(239,760)	(228,826)
General purpose revenues					
Property taxes					
Levied for general purposes				99,602	98,787
State school aid - unrestricted				245,865	223,163
Grants and contributions not restricted to specific programs				10,257	10,019
Investment and other				5,065	1,417
Total general purpose revenues				360,789	333,386
Change in net assets				121,029	104,560
Net assets, beginning of year				193,595	89,035
Net assets, ending of year				\$ 314,624	\$ 193,595

The accompanying notes are an integral part of these financial statements.

Excelsior District #1

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2006

(with comparative totals for June 30, 2005)

	<u>General Fund</u>	
	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and cash equivalents	\$187,893	\$142,282
Accounts receivable	425	1,057
Due from other governmental units	63,991	69,830
Total assets	<u>\$252,309</u>	<u>\$213,169</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 1,961	\$ 11,477
Salaries payable and related expenses	27,636	28,030
Total liabilities	<u>29,597</u>	<u>39,507</u>
FUND BALANCE		
Unreserved and undesignated, reported in General Fund	222,712	173,662
Reconciliation of Governmental Fund Balance to District-Wide		
Government Activities Net Assets		
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$164,034 and the accumulated depreciation is \$72,122.	91,912	19,933
Total net assets - governmental activities	<u>\$314,624</u>	<u>\$193,595</u>

Excelsior District #1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year ended June 30, 2006

(with comparative totals for year ended June 30, 2005)

	General Fund	
	2006	2005
Revenues		
Property taxes	\$ 99,602	\$ 98,787
Interest	5,065	1,417
State revenues	259,961	229,983
Federal revenues	30,020	32,028
Other	10,283	10,050
Total revenues	404,931	372,265
Expenditures		
Instruction	202,419	188,940
Supporting Services	74,114	69,006
Payments to other governmental agencies	-	6,700
Capital Outlay	79,348	20,303
Total expenditures	355,881	284,949
EXCESS OF REVENUES OVER EXPENDITURES	49,050	87,316
Fund balance, beginning of year	173,662	86,346
Fund balance, end of year	\$ 222,712	\$ 173,662

Excelsior District #1

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

For the year ended June 30, 2006

(with comparative totals for year ended June 30, 2005)

	<u>2006</u>	<u>2005</u>
TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 49,050	\$ 87,316

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period.

Capital outlays	\$ 79,300		
Depreciation expense	<u>(7,321)</u>	<u>71,979</u>	<u>17,244</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$121,029</u>	<u>\$104,560</u>

Excelsior District #1

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

(with comparative totals for June 30, 2005)

	<u>Agency Fund</u>	
	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and cash equivalents	<u>\$ 52</u>	<u>\$ 100</u>
LIABILITIES		
Due to student groups	<u>\$ 52</u>	<u>\$ 100</u>

Excelsior District #1

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The accounting and reporting framework and the more significant accounting principles and practices of Excelsior District #1 (the "School District") are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2006.

The Financial Reporting Entity

Excelsior District #1 is a Michigan public school district consisting of an elementary school. The School District primarily serves the Excelsior Township community. The School District employs three professional staff and one support staff and has 46 students enrolled.

Excelsior District #1's Board of Education (the "Board") is the basic level of government which has oversight responsibility and control over all activities related to the public school education. The Board receives funding from local, State and Federal governmental sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements, since Board members are elected by the public and have decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncements, student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and School District general revenues.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the School District are prepared in accordance with generally accepted accounting principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The School District's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as needed.

Fund Types and Major Funds

Activities in Major Funds

The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations.

Cash and Equivalents

The School District reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 3 to 50 years. The School District generally capitalizes assets with costs of \$500 or more as purchase and construction outlays occur. No depreciation is recorded on land. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	50 years
Improvements, other than buildings	20 to 25 years
Buses and vehicles	7 to 15 years
Furniture and equipment	3 to 20 years

Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes. Designations of fund balance represent tentative management plans that are subject to change. The School District had no fund balance reservations or designations as of June 30, 2006.

Allocation of Expenses

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses. However, depreciation expense directly related to a particular function is included in that function on the statement of activities.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are Title I and Small Rural Education Achievement Programs, which are reported as operating grants and contributions.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

NOTE B - BUDGETARY POLICY AND PRACTICE

The School District has adopted these procedures in establishing the budgets as reflected in the financial statements:

1. As early as possible in the preceding fiscal year (generally in the spring), the Superintendent formulates preliminary budgets for the coming year, which he submits to the Board of Education for their review.
2. A public hearing is held prior to June 30 on the proposed budgets to obtain taxpayer comments.
3. The Board of Education reviews the proposed budget and then in June adopts a formal resolution approving the needed appropriations for the coming operating year.
4. All transfers of budget amounts and any amendments to the formal Appropriation Act are approved by the Board of Education.
5. It is the Superintendent's responsibility to supervise and monitor the budget process. He does this by reviewing the monthly financial data and reporting and recommending any needed amendments to the Board of Education.
6. The budget is adopted on a basis consistent with generally accepted accounting principles.
7. The budgets presented in these financial statements are as originally adopted and as formally amended by the Board of Education.
8. All annual appropriations lapse at fiscal year-end.

NOTE C - DEPOSITS AND INVESTMENTS

At June 30, 2006, the School District's cash included bank deposits of \$187,945.

Bank Deposits

All cash of the School District is on deposit with financial institutions which provide FDIC insurance coverage or in highly liquid pooled money funds. Michigan law prohibits collateralization of bank accounts. The investments in the pooled money funds are those permitted by Michigan law.

Michigan law permits investments in the following vehicles:

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.

In the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2006, \$92,848 of the School District's bank balance of \$192,900 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Interest Rate Risk

In accordance with the School District's investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fail due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The School District has no investment policy that would further limit its investment choices.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Property Taxes Receivable, Deferred Revenue and Property Tax Calendar

Property taxes are levied, billed and attached as enforceable liens in December of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred revenue. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$17.52 per \$1,000 of equalized non-homestead property value of \$6.00 million was levied for general operating purposes.

Intergovernmental Receivables and Deferred Revenue

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Deferred revenue received after 60 days is fully recognized as revenue in the government-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, 2006 are as follows:

Due from the State of Michigan	
State Aid	\$47,202
Due from Federal Grants	<u>16,789</u>
	<u>\$63,991</u>

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2006</u>
Buildings and improvements	\$25,216	\$ -	\$ -	\$ 25,216
Furniture and equipment	5,618	12,849	-	18,467
Buses and vehicles	<u>53,900</u>	<u>66,451</u>	-	<u>120,351</u>
Total depreciable assets	84,734	79,300	-	164,034
Less accumulated depreciation	(64,801)	(7,321)	-	(72,122)
Land	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, net	<u>\$19,933</u>	<u>\$71,979</u>	<u>\$ -</u>	<u>\$ 91,912</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - INVESTMENTS IN CAPITAL ASSETS - Continued

Depreciation expense was charged to the function in the statement of activities, as follows:

Unallocated	<u>\$7,321</u>
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NOTE F - RISK MANAGEMENT

The School District is exposed to various risk of loss related to torts; theft of, damage to; and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School District participates in two distinct pools and educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for one policy year exceed normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. Each of the pools maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The School District has not been informed of any special assessments being required.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

NOTE G - PENSION PLAN

The School District contributes to the Michigan Public School Employees' Retirement Systems ("MPSERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan, Department of Management & Budget ("DMB"). MPSERS provides retirement, disability, death and post-employment health benefits to plan members and beneficiaries. Member Investment Plan ("MIP") participants receive enhanced benefits compared to Basic Plan participants. Benefits are safeguarded by Article IX, Section 24 of the Michigan Constitution. Public Act 300 of 1980, as amended, assigns authority to establish and amend benefit provisions to the State Legislature. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MPSERS, P.O. Box 30171, Lansing, MI 48909-7671, or by calling (517) 322-5103.

Funding Policy

Plan members who participate in MIP are required to contribute 3.0% to 4.5% of their annual covered salary; plan members who participate in the Basic Plan may not contribute to the Plan; and Excelsior District #1 is required to contribute at an actuarially determined rate. The rate was 14.87% for the period July 1, 2005 to September 30, 2005 and 16.34% for the period October 1, 2005 to June 30, 2006 of annual covered payroll. The contribution requirements of Plan members and Excelsior District #1 are established and may be amended by the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2006, 2005 and 2004, were \$20,732, \$ 17,902 and \$15,479, respectively, which is equal to the required contribution for the year.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE H - COMMITMENTS AND CONTINGENCIES

Federal and State Grants

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

REQUIRED SUPPLEMENTARY INFORMATION



Business and Financial Advisors
Our clients' success – our business

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Education
Excelsior District #1

We have audited the financial statements of *Excelsior District #1* (the "School District") as of and for the year ended June 30, 2006, and have issued our report thereon dated August 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, Michigan Department of Education, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

Member of
August 3, 2006



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Excelsior District #1

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
Revenues					
Local and intermediate sources	\$ 104,593	\$ 110,475	\$ 114,950	\$ 5,882	\$ 4,475
State program revenues	213,451	259,959	259,961	46,508	2
Federal program revenues	28,842	30,022	30,020	1,180	(2)
Total revenues	346,886	400,456	404,931	53,570	4,475
Expenditures					
Current					
Instruction	216,040	217,169	215,041	(1,129)	2,128
Supporting Services	95,812	152,023	140,840	(56,211)	11,183
Other	6,700	-	-	6,700	-
Total expenditures	318,552	369,192	355,881	(50,640)	13,311
	28,334	31,264	49,050	2,930	17,786
EXCESS OF REVENUES OVER EXPENDITURES					
Fund balance, beginning of year	162,844	173,662	173,662	10,818	-
Fund balance, end of year	\$ 191,178	\$ 204,926	\$ 222,712	\$ 13,748	\$ 17,786